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UNICEF Strategic Plan: updated financial estimates, 2015-2018

Summary

A four-year financial framework forms part of the UNICEF Strategic Plan, which is presented, usually for a period of four years, in accordance with Executive Board decisions 2000/3 and 2013/20. The financial plan is reviewed and revised annually on a rolling basis. The current Strategic Plan covers 2014-2017.

Total revenue is forecast to be $4.71 billion in 2015, a decline of 9 per cent from 2014. Revenue is projected to decrease a further 9 per cent in 2016 compared to 2015. In 2017 and 2018 revenue is expected to resume gradual growth. Total expenditures in 2015 are estimated at $5 billion, exceeding forecast revenue by $291 million. The deficit will be financed from cash balances. The planned expenditures will reduce cash balances but UNICEF will continue to meet a prudent liquidity requirement.

This financial framework of revenue and expenditure estimates provides a basis for determining the level of regular resources programme submissions to be approved in 2016. Allocations of regular resources for country programmes during the period under review will be managed through the modified system for allocation of regular resources for programmes, as revised by the Executive Board in its decisions 2008/15 and 2013/20.

UNICEF recommends that the Executive Board approve the framework of planned financial estimates for 2015-2018 and approve the preparation of programme expenditure submissions to the Executive Board of up to $725 million from regular resources in 2016, subject to the availability of resources and the continued validity of these planned financial estimates. A draft decision is included in section III.

* E/ICEF/2015/12.

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Introduction

1. A four-year financial plan forms part of the UNICEF Strategic Plan in accordance with Executive Board decisions 2000/3 and 2013/20 and is reviewed and revised annually on a rolling basis.

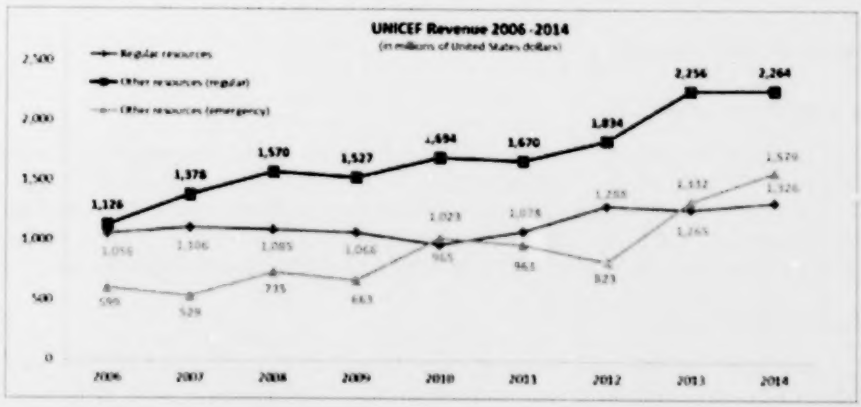
2. The financial plan is preceded by a review of the financial performance of UNICEF in the previous year, with highlights of the financial trends that evolved during a recent multi-year period. The purpose of the review is to provide key high-level information on revenue, expenditure and liquidity as a baseline to the financial plan.

I. Financial review, 2014

A. Revenue

3. Total revenue in 2014 was $5.17 billion, reflecting an increase of $316 million over the 2013 revenue. The main source of revenue continues to be voluntary contributions from governments, private organizations and individuals, which accounted for 98 per cent of total revenue. The remaining 2 per cent of the revenue was generated by the sale of greeting cards and products for an amount of $43 million, interest amount of $30 million, procurement services for partners for an amount of $46 million and miscellaneous activities of $18 million.

4. Regular resources revenue (unearmarked or "core" funds) in 2014 was $1.33 billion, an increase of 5 per cent as compared to 2013 ($1.27 billion). Other resources regular (earmarked funds) contributions were $2.26 billion and other resources emergency were $1.58 billion, increases of $8 million and $247 million, respectively, as compared to 2013.



5. The increase in other resources emergency revenue of 19 per cent over 2013 is attributed primarily to funding for humanitarian emergencies in the Central African Republic, Iraq, the Philippines, South Sudan, the Syrian Arab Republic; and for the Ebola crisis. Similar to 2013, core resources accounted for 26 per cent of total revenue in 2014.

6. In 2014, a total of 135 governments contributed to UNICEF resources. Total public sector contributions (from governments, intergovernmental organizations and inter-organizational arrangements) were $3.68 billion (up from $3.33 billion in 2013). Private sector contributions (from the 35 National Committees for UNICEF, individual donors, non-governmental organizations and foundations) were $1.40 billion (down from $1.44 billion in 2013), including revenue of $43 million from the sale of greeting cards and products. Private sector donations accounted for 27 per cent of UNICEF revenue in 2014.

B. Expenditure

7. Total expenditures amounted to $4.92 billion in 2014, an increase of 16 per cent over 2013. Programme and development effectiveness represented 90 per cent of total UNICEF expenditures in 2014 as compared to 89 per cent in 2013. Further detailed analysis of 2014 financial performance is provided in chapter IV of the UNICEF Financial Statements for 2014 as well as in the annual report of the Executive Director of UNICEF presented at the 2015 annual session of the Executive Board.

C. Trust funds

8. Trust funds are established mainly for services carried out on behalf of governments and other organizations for the procurement of vaccines and other commodities essential for the well-being of children.

9. Procurement services receipts remained steady in 2014 at $1.57 billion as compared to $1.56 billion in 2013. Trust funds represent evolving opportunities that UNICEF has to shape the global market for vaccines and other child-related products and to achieve savings for partners and UNICEF.

D. Reserves and liquidity

Cash held in reserves

10. Reserves in cash amounted to $467 million as at 31 December 2014, an increase of 6.9 per cent over the balance of $437 million as at 31 December 2013. They comprise reserves for: procurement services, capital assets, after-service health insurance (ASHI) and staff separation. The latter two reserves, ASHI and the staff separation fund, accounted for 98 per cent of the total cash held in reserves.

Liquidity after reserves

11. The total available cash balance, excluding reserves, at the end of 2014 was $2.57 billion: $617 million of regular resources and $1.96 billion of other resources.

12. Contributions for other resources are normally received before implementation begins and are governed by multi-year agreements.

13. In 2014, UNICEF met the requirement of a prudent level of liquidity for regular resources, defined as the equivalent of expenditure for three to six months, or about $300 million to $600 million. This prudent guideline concurs with the general practice of non-profit organizations, including the United Nations community.

II. Planned financial estimates for 2015-2018

14. This section presents the projections of UNICEF financial resources for the period 2015-2018. It comprises revenue and expenditure projections, and the resulting cash balances for regular resources and other resources. Estimates for trust funds are also included. In line with decision 2013/20, the presentation of the planned financial estimates has been aligned with the format of the integrated resource plan as presented in the UNICEF integrated budget for 2014-2017, and presents planned use of resources grouped by the harmonized cost classification categories.

15. The financial projections provide a financial framework for the yearly phasing of estimated regular resources expenditure. In particular, it provides a financial context to future programme submissions to be made to the Executive Board.

A. Revenue

16. The present financial plan has been developed during a period of economic uncertainty. While children's needs increase during periods of economic hardship, the realities of fiscal austerity and high unemployment in some donor countries dictate prudent financial projections. Despite the ongoing difficult economic climate, UNICEF continues to be a partner of choice for donors.

17. After experiencing growth of 7 per cent in 2014, other resources revenue is projected to decline by 10 per cent in 2015. In 2016, other resources revenue is estimated to decline by another 13 per cent. In 2017, revenue will continue to slightly decrease at a rate of 1 per cent. In 2018, other resources revenue is projected to be flat compared to 2017. Revenue estimates are provided in table 1 of the annex.

18. The share of private contributions in UNICEF total revenue is expected to increase in the medium term, from 27 per cent in 2014 to 37 per cent in 2018.

19. Over the past year the US dollar has strengthened significantly against some of the currencies, e.g. the euro, Japanese yen, Nordic currencies and UK pound, in which UNICEF receives the majority of its regular resources contributions. Out of the total regular resources revenue projected over the period 2015-2018, only about one fourth is in US dollars. Regular resources revenue is expected to decline 6 per cent in 2015, mainly driven by the impact of an adverse exchange rate. Thereafter, regular resources revenue is projected to maintain a modest growth of between 3 per cent to 5 per cent per year over the period 2016-2018, primarily resulting from growth in private sector fundraising. Estimates of regular resources revenue are provided in table 1.

B. Expenditure

20. Despite the projected decline in total revenue in 2015, total expenditure is expected to increase by 2 per cent compared to 2014. Smooth implementation of ongoing programmes will be facilitated by financing the deficit with cash balances. If, as forecasted, total revenue declines further in 2016, total expenditure will be adjusted downward in 2016 but would still be higher than revenue.

21. As shown in table 2, total estimated annual expenditure during the planning period will exceed the projected annual revenue. The resulting deficit will be funded from the balance accumulated in prior years when actual revenue was greater than planned.

Regular resources expenditure

22. The main components of regular resources expenditure are: (a) development activities comprising (i) programmes, and (ii) development effectiveness, and accounting for 78 per cent of the total use of regular resources; (b) management activities accounting for 11 per cent; and (c) special purpose activities, including private sector fundraising, accounting for 11 per cent.

Programmes

23. As noted in the review of revenue performance, overall regular resources to UNICEF increased by 4.7 per cent in 2014. A 12 per cent increase in public sector regular resources contributions was partly offset by a 3 per cent decline in such contributions from the private sector. Contributions from both the public and private sectors were negatively impacted by exchange rate variations. Thematic funding decreased by 5 per cent in 2014, continuing its decline as a percentage of total earmarked funds, or other resources, reaching an all-time low of less than 9 per cent. Regular resources and thematic funds directly support the achievement of programme results by enabling longer-term planning and lowering transaction costs. It is critical for UNICEF and its partners to redouble efforts to ensure a flexible and predictable funding base.

24. If the conservative revenue projections under this plan are realized, UNICEF intends to maintain the current 2015 annual allocation of regular resources for programme assistance of 937 million for all the years between 2016 and 2018. Allocations of regular resources to country programmes will be managed according to the modified system for allocation, approved by the Executive Board in its decisions 2008/15 and 2013/20, which favours countries in greatest need. Table 4 indicates how regular resources expenditures on approved, new and future proposals for programmes will be phased each year from 2015 through 2018.

25. At the beginning of 2015, regular resources expenditures for ongoing country programmes were estimated at $1.97 billion. The amount of regular resources for programmes proposed to the Executive Board for approval in 2015 totals $1.11 billion for programme cycles that start in 2016.

26. For 2016, the estimated amount of regular resources for programme proposals to be approved by the Executive Board is $725 million for programmes cycles that start in 2017. The level of planned programme expenditures will be continuously reviewed and adjusted based on updated information on projected revenue.

Institutional budget

27. At its second regular session of 2013, the Executive Board approved a four-year institutional budget of $2.10 billion for the period 2014-2017 to support the UNICEF Strategic Plan 2014-2017. The budget for development effectiveness, United Nations development coordination, management and special purpose (capital investments) costs is referred to as the institutional budget. It is funded from regular resources, other resources and cost recovery.

Cost recovery

28. For the 2014-2017 period, UNICEF has started to apply the new cost-recovery methodology and rates as approved in Executive Board decision 2013/5. In line with the approved cost-recovery methodology, cost recovery from other resources will fund the management and special purpose (capital investment) activities of the institutional budget. The proposed use of cost recovery is reflected in table 5.

29. The 2014-2017 institutional budget as originally approved in 2013 was estimated to be funded 55 per cent from regular resources, 39 per cent from cost recovery and 6 per cent directly from other resources. In 2014, the actual institutional budget funding split was 47 per cent from regular resources, 50 per cent from cost recovery and 3 per cent from other resources. Actual cost recovery in 2014 was $219 million compared to a planned amount of $209 million. The additional cost recovery was used to fund the institutional budget ("management" and "special purpose — capital investment" cost classification categories), reducing the amount of regular resources used to fund the institutional budget while remaining within the overall approved institutional budget (see table 5). This trend is expected to continue for the remainder of the approved integrated budget period (2015-2017).

Other resources expenditure

30. The projections of programme assistance expenditure funded by other resources, presented in table 5 reflect efforts to accelerate implementation. Actual other resources expenditure in 2014 was $188 million lower than revenue, which is an improvement as compared to 2013, where actual other resources expenditure was $540 million lower than revenue. Other resources expenditure in 2015 is projected to be 6 per cent greater than other resources revenue and this trend is expected to be further accelerated in the following years with expenditure up to 15 per cent greater than other resources revenue. The revenue-expenditure gap is financed from the balance of other resources carried over from previous years.

C. Funded reserves

31. The two largest funded reserves are for post-service staff liabilities. These reserves are: the separation fund for repatriation costs and accrued annual leave, and the ASHI fund. The total amount of funding for these reserves is projected to increase from $467 million in 2014 to $578 million in 2018, as shown in table 3.

32. Following discussions with the Executive Board in recent years and with the implementation of the International Public Sector Accounting Standards, which requires the full reporting of after-service staff liabilities in the corporate financial statements, UNICEF has developed and is implementing a robust funding strategy for these liabilities. The strategy will ensure that, over time, the reserve for these liabilities is accumulated from the funding sources to which post costs are correctly attributed. UNICEF will continue to monitor the effectiveness of and make appropriate adjustments to the strategy as financial variables change.

D. Cash balance

33. The regular resources cash balance at year end 2015 is projected to be $499 million, which is equivalent to four to five months of disbursements. The regular resources cash balance is used as working capital to mitigate the liquidity risk related to fluctuations in cash inflows. Unlike other resources, which are allocated to programmes when cash is received from a donor, regular resources allocations for country programmes are made in November for the following year, before regular resources funds are received. It is therefore critical to have working capital to start programme implementation while awaiting cash from donors. Best practice among development organizations is to maintain working capital sufficient for three to six months of expenditures. In the case of UNICEF, those levels would translate to $300 million to $600 million. The projected working capital falls within that range, reaching $304 million by 2018, as indicated in table 3.

34. As part of efforts to accelerate programme implementation, other resources expenditure is projected to be greater than revenue for every year of the planning period 2015-2018. Therefore, the other resources available balance is projected to decrease from $2.04 billion at year end 2014 to $558 million in 2018.

III. Draft decision

35. UNICEF recommends that the Executive Board adopt the following draft decision:

The Executive Board

1. *Takes note* of the planned financial estimates for 2015-2018 as contained in document E/ICEF/2015/AB/L.4 as a flexible framework for supporting UNICEF programmes;

2. *Approves* the integrated resources framework of planned financial estimates for 2015-2018 and approves the preparation of programme expenditure submissions to the Executive Board of up to $725 million from regular resources in 2016, subject to the availability of resources and the continued validity of these planned financial estimates;

3. *Requests* UNICEF to provide annual updates to the Executive Board on the progress of funding its reserves for staff liabilities.

Annex

Planned financial estimates tables[1]

1. UNICEF revenue estimates
2. Integrated resource plan: regular and other resources
3. UNICEF planned financial estimates — regular resources
4. Regular resources — yearly phasing of estimated expenditures for programme
5. UNICEF planned financial estimates — other resources
6. UNICEF planned financial estimates — trust funds: procurement services activities

[1] The totals in the tables may not add up exactly due to rounding.

Table 1
UNICEF revenue estimates
(in millions of United States dollars)

				Plan		
	Plan 2014	*Actual 2014**	*Estimate 2015*	*2016*	*2017*	*2018*
Regular resources						
Governments	654	660	561	545	541	539
Private sector	609	572	588	626	678	744
Other revenue	80	94	91	101	111	115
Total — regular resources	**1 343**	**1 326**	**1 240**	**1 272**	**1 329**	**1 398**
Growth percentage	6%	5%	(6)%	3%	5%	5%
Other resources						
Regular						
Governments	1 181	1 358	1 260	1 119	1 118	1 115
Private sector	544	693	759	763	790	831
Inter-organizational arrangements	192	213	221	211	162	147
Subtotal — programmes	**1 917**	**2 264**	**2 240**	**2 093**	**2 070**	**2 093**
Growth percentage	(15)%	0%	(1)%	(7)%	(1)%	1%
Emergencies						
Governments	548	1 163	839	664	669	648
Private sector	70	131	180	70	70	70
Inter-organizational arrangements	156	285	210	185	185	185
Subtotal — emergencies	**774**	**1 579**	**1 229**	**919**	**924**	**903**
Growth percentage	(42)%	19%	(22)%	(25)%	1%	(2)%
Total — other resources	**2 691**	**3 843**	**3 469**	**3 013**	**2 994**	**2 996**
Growth percentage	(25)%	7%	(10)%	(13)%	(1)%	0%
Total revenue	**4 034**	**5 169**	**4 709**	**4 285**	**4 323**	**4 395**
Growth percentage	(17)%	7%	(9)%	(9)%	1%	2%

* Actual growth percentage in 2014 is in comparison to 2013 actual.

Table 2
Integrated resource plan: regular resources and other resources
(in millions of United States dollars)

				Plan		
	Plan 2014	*Actual 2014*	*Estimate 2015*	*2016*	*2017*	*2018*
1. Resources available						
Opening balance	2 428	2 428	2 658	2 348	1 806	1 316
Revenue						
Contributions	3 954	5 075	4 618	4 184	4 212	4 280
Other income	80	94	91	101	111	115
Total revenue	4 034	5 169	4 709	4 285	4 323	4 395
Adjustment	(24)	(19)	(19)	(19)	(19)	(19)
Total available	**6 438**	**7 578**	**7 348**	**6 614**	**6 111**	**5 691**
2. Use of resources						
A Development						
A.1 Programmes	3 624	4 325	4 319	4 111	4 079	4 113
Country	*3 451*	*4 152*	*4 145*	*3 932*	*3 897*	*3 931*
Global and Regional	*173*	*173*	*174*	*179*	*182*	*182*
A.2 Development effectiveness	133	113	142	149	155	155
Subtotal	**3 757**	**4 438**	**4 461**	**4 259**	**4 234**	**4 268**
B United Nations development coordination	**9**	**8**	**9**	**9**	**9**	**9**
C Management	**346**	**309**	**370**	**379**	**389**	**389**
D Special purpose						
D.1 Capital investments	13	11	14	14	14	14
D.2 Private sector fundraising	109	102	101	103	106	106
D.3 Other	44	52	45	43	42	42
Subtotal	**166**	**164**	**160**	**160**	**162**	**162**
Institutional budget (A.2+B+C+D.1)	**501**	**441**	**535**	**550**	**568**	**568**
Integrated budget (A+B+C+D)	**4 278**	**4 920**	**5 000**	**4 807**	**4 795**	**4 829**
Closing balance of resources	**2 160**	**2 658**	**2 348**	**1 806**	**1 316**	**862**
Funded reserves						
After-service health insurance	390	390	410	430	450	470
Separation and termination liabilities	70	66	75	85	95	105
Field office accommodation	5	9	4	3	2	1
Procurement services	2	2	2	2	2	2
Total	**467**	**467**	**491**	**520**	**549**	**578**

Table 3
UNICEF planned financial estimates — regular resources
(in millions of United States dollars)

				Plan		
	Plan 2014	*Actual 2014*	*Estimate 2015*	*2016*	*2017*	*2018*
1. Resources available						
Opening balance	575	575	617	499	385	309
Revenue						
Contributions	1 263	1 232	1 149	1 171	1 218	1 283
Other income	80	94	91	101	111	115
Total revenue	1 343	1 326	1 240	1 272	1 329	1 398
Adjustment	(24)	(19)	(19)	(19)	(19)	(19)
Total available	**1 894**	**1 882**	**1 838**	**1 752**	**1 695**	**1 688**
2. Use of resources						
A Development						
A.1 Programmes	900	904	937	937	937	937
Country	*855*	*864*	*892*	*892*	*892*	*892*
Global and Regional	*45*	*40*	*45*	*45*	*45*	*45*
A.2 Development effectiveness	111	102	114	119	124	124
Subtotal	**1 011**	**1 006**	**1 051**	**1 055**	**1 060**	**1 060**
B United Nations development coordination	**5**	**5**	**5**	**5**	**5**	**5**
C Management	**146**	**97**	**132**	**156**	**168**	**166**
D Special purpose						
D.1 Capital investments	5	3	5	5	5	5
D.2 Private sector fundraising	109	102	101	103	106	106
D.3 Other	44	52	45	43	42	42
Subtotal	**158**	**157**	**151**	**151**	**153**	**153**
Institutional budget (A.2+B+C+D.1)	**266**	**207**	**256**	**284**	**302**	**299**
Integrated budget (A+B+C+D)	**1 319**	**1 265**	**1 339**	**1 367**	**1 386**	**1 384**
Closing balance of resources	**575**	**617**	**499**	**385**	**309**	**304**
Funded reserves						
After-service health insurance	390	390	410	430	450	470
Separation and termination liabilities	70	66	75	85	95	105
Field office accommodation	5	9	4	3	2	1
Procurement services	2	2	2	2	2	2
Total	**467**	**467**	**491**	**520**	**549**	**578**

Table 4

Regular resources — yearly phasing of estimated expenditures for programme

(in millions of United States dollars)

	2015	*2016*	*2017*	*2018*	*Beyond 2018*	*Total recommendations*
Programme						
1. Country programmes approved in prior years	791	569	424	129	52	1 965
2. New country programmes to be submitted to 2015 Executive Board sessions		222	222	222	444	1 110
3. New country programmes to be prepared for submission to 2016 Executive Board sessions			145	145	435	725
4. New country programmes to be prepared for submission to future Executive Board sessions				295	1 369	1 664
5. Amount set aside	63	63	63	63		
6. Estimated allocation of net revenue from sale of greeting cards in countries with UNICEF programmes	3	3	3	3		
Subtotal	**857**	**857**	**857**	**857**		
7. Additional emergency requirements	35	35	35	35		
Subtotal	**892**	**892**	**892**	**892**		
8. Global and Regional Programme	45	45	45	45		
Total — Programme	**937**	**937**	**937**	**937**		

Table 5
UNICEF planned financial estimates — other resources
(in millions of United States dollars)

	Plan 2014	*Actual 2014*	*Estimate 2015*	*Plan*		
				2016	*2017*	*2018*
1. Resources available						
Opening balance	1 853	1 853	2 041	1 849	1 421	1 007
Revenue						
Contributions	2 691	3 843	3 469	3 013	2 994	2 996
Total revenue	2 691	3 843	3 469	3 013	2 994	2 996
Total available	**4 544**	**5 696**	**5 510**	**4 861**	**4 415**	**4 003**
2. Use of resources						
A Development						
A.1 Programmes	2 724	3 421	3 383	3 174	3 143	3 177
Country	2 596	3 288	3 253	3 040	3 006	3 040
Global and Regional	128	133	129	134	137	137
A.2 Development effectiveness	22	11	27	30	32	32
Subtotal	**2 746**	**3 432**	**3 410**	**3 204**	**3 174**	**3 208**
B United Nations development coordination	**4**	**4**	**4**	**4**	**4**	**4**
C Management*	**200**	**212**	**238**	**223**	**221**	**223**
D Special purpose						
D.1 Capital investments*	9	7	9	9	9	9
D.2 Private-sector fundraising	–	–	–	–	–	–
D.3 Other	–	–	–	–	–	–
Subtotal	**9**	**7**	**9**	**9**	**9**	**9**
Institutional budget (A.2+B+C+D.1)	**235**	**234**	**279**	**266**	**266**	**268**
Integrated budget (A+B+C+D)	**2 959**	**3 655**	**3 661**	**3 440**	**3 409**	**3 445**
Closing balance of resources	**1 585**	**2 041**	**1 849**	**1 421**	**1 007**	**558**

* Amounts reflect use of other resources cost recovery to fund management and capital investments.

Table 6
UNICEF planned financial estimates — trust funds: procurement services activities
(in millions of United States dollars)

			Plan		
	Actual 2014	*Estimate 2015*	*2016*	*2017*	*2018*
1. Opening balance	586	414	755	814	829
2. Receipts	1 567	2 102	1 959	1 949	1 949
3. Disbursements	1 739	1 761	1 899	1 934	1 945
4. Closing balance	414	755	814	829	833